

Message Text

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ARA/BR:TSHUGART

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FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA

INFO AMEMBASSY ABIDJAN

AMEMBASSY BOGOTA

AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY MEXICO

AMEMBASSY PARIS

AMCONSUL RIO DE JANEIRO

AMEMBASSY SAN SALVADOR

AMCONSUL SAO PAULO

AMEMBASSY TANANARIVE

C O N F I D E N T I A L STATE 230374

LIMDIS

E.O. 11652: GDS

TAGS: ETRD, EAGR, BR

SUBJECT: BRAZIL COFFEE PURCHASES

1. AMBASSADOR PINHEIRO OF BRAZIL CALLED ON ASSISTANT SECRETARY-DESIGNATE KATZ SEPTEMBER 16 TO DELIVER A RESPONSE TO T'- DEPARTMENT'S AIDE MEMOIRE OF SEPTEMBER 10. TEXT OF A-DE ;EMOIRE BEING SENT SEPTTEL.

2. AFTER READING THE AIDE MEMOIRE, KATZ COMMENTED ON
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SEVERAL OF THE POINTS MADE IN IT. HE OPENED BY EXPRESSING

APPRECIATION FOR THE PROMPT RESPONSE TO OUR EXPRESSION OF CONCERN. HE POINTED OUT THAT THE INSTALLED CAPACITY OF THE "FREEZE-DRIED" INDUSTRY IN BRAZIL IS LESS THAN THE REPORTED TOTAL PURCHASES, AND BEARS OUT OUR CONCERN. REGARDING THE GOB'S COMMENTS ON THE COFFEE AND SUGAR EXCHANGE, KATZ STATED THAT WE ARE GREATLY CONCERNED BY RECENT EVENTS. WE DO NOT READ THE JULY PRICE DROP AS BEING THE RESULT OF MANIPULATION, BUT AS A CORRECTION TO EXCESSIVELY HIGH PRICES RESULTING FROM FEARS OF A SECOND FROST. IN CONTRAST, THERE IS A STRONG SUGGESTION OF MANIPULATION OF THE SEPTEMBER POSITION OF THE "C" CONTRACT.

3. KATZ SAID IT IS NO SECRET IN THE TRADE THAT THE SALVADORAN COFFEE COMPANY HAS BOUGHT COFFEE ON THE NEW YORK EXCHANGE FOR DELIVERY IN SEPTEMBER AND DECEMBER. THIS "LONG POSITION" IS OF CONCERN TO THE COMMODITIES FUTURES TRADING COMMISSION. CFTC HAS DIFFICULTY UNDERSTANDING WHY A MAJOR EXPORTER WOULD ALSO BE A MAJOR BUYER OF COFFEE IN THE NEW YORK MARKET.

4. KATZ STATED THAT IF IT BECOMES WIDELY KNOWN THAT PRODUCING COUNTRIES ARE INTERVENING IN THE MARKET TO FORCE HIGHER PRICES, WE COULD GET A VERY STRONG PUBLIC REACTION. THE U.S. WANTS TO COOPERATE WITH THE PRODUCERS TO MAINTAIN PRICES WHICH ARE NEITHER EXCESSIVELY HIGH NOR EXCESSIVELY LOW. WE JOINED THE NEW INTERNATIONAL COFFEE AGREEMENT IN ORDER TO GIVE THE PRODUCERS THE CONFIDENCE THEY NEED TO RESTORE PRODUCTION. WE HAVE GIVEN THE ASSURANCE THAT PRICES WOULD NOT RETURN TO DISASTROUS LEVELS. KATZ SAID THE U.S. IS RAISING THIS MATTER BILATERALLY WITH THE GOB BECAUSE IT HOPES TO AVOID A PUBLIC AIRING OF THE ISSUE AND THE ICO IS VERY MUCH A PUBLIC FORUM. WE WOULD HOPE TO USE THE ICO PRIMARILY FOR DISCUSSIONS OF A TECHNICAL NATURE.

5. REGARDING THE BRAZILIAN PROPOSALS MADE RECENTLY TO OUR REPRESENTATIVE IN LONDON, KATZ SAID THE U.S. BELIEVES THAT ARTICLE 30 OF THE ICA IS CLEAR ON THE QUESTION OF QUOTA ALLOCATION. THE BRAZILIAN PROPOSAL MADE IN LONDON IS NOT SATISFACTORY TO US. WE WILL MAINTAIN OUR POSITION THAT EXPORTS FROM EXPORTING COUNTRIES TO OTHER EXPORTING COUNTRIES

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WILL NOT COUNT IN THE SELLING COUNTRY'S QUOTA BASE. IN CONCLUDING, KATZ SAID HE TOOK HOPE FROM THE GOB'S REITERATION THAT WHATEVER QUANTITIES ARE IMPORTED WILL BE BLENDED WITH BRAZILIAN COFFEES AND RE-EXPORTED TO WORLD MARKETS.

6. PINHEIRO RESPONDED THAT BRAZIL'S POSITION IS CLEAR. I HAS MAINTAINED THE MINIMUM REGISTRATION PRICE WELL BELOW CURRENT MARKET LEVELS. THAT FACT PLUS HIGH EXPORT LEVELS

PROVE THAT BRAZIL IS SHIPPING THE MAXIMUM POSSIBLE TO WORLD MARKETS. IT IS NOT WITHHOLDING COFFEE AND IT IS NOT IMPORTING COFFEE FOR DOMESTIC CONSUMPTION.

7. REGARDING THE JULY PRICE DROP, PINHEIRO SAID HE HAD HEARD THE FROST EXPLANATION, BUT DID NOT SEE HOW THAT IN ANY WAY ALTERED THE FUNDAMENTAL STATISTICAL SUPPLY SITUATION.

8. KATZ SAID THAT HE HAD TESTIFIED BEFORE CONGRESS ON SEVERAL OCCASIONS THAT COFFEE PRICES WILL BE HIGH FOR SEVERAL YEARS. OUR OBJECTIVE IS TO TRY TO DAMPEN THE EFFECTS OF THE STATISTICAL SITUATION AND OF SPECULATION TO THE EXTENT WE CAN. WE WILL DISCUSS OUR TECHNICAL CONCERNS IN LONDON. HOWEVER, WE MAY WANT TO RESUME BILATERAL DISCUSSIONS IN WASHINGTON AGAIN. WE HOPE TO AVOID MAGNIFYING THE ISSUE BY

DISCUSSING IT IN A PUBLIC FORUM. ROBINSON

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